FOREWORD

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In this edition of the *Foreword* newsletter, we step back from the noise and turn our attention to deeper themes shaping markets today — and tomorrow.

We begin with a compelling perspective from Foord Singapore portfolio manager JC Xue, who challenges the prevailing Western narrative around China. While many market commentators remain fixated on macro gloom and geopolitics, JC highlights how the market continues to underestimate China's innovation curve — and why this presents a rare, asymmetric opportunity for the long-term investor.

Closer to home, our focus shifts to South Africa's economic crossroads. In *Low-Hanging Fruit Lies Everywhere*, we note how simple, actionable reforms could unlock meaningful growth if the political will matched the potential. It's a sobering — yet hopeful — piece that invites reflection on the country's unrealised promise. Staying in South Africa, analyst Byron Jackson-Miller unpacks the nuanced thesis for investing in the country's best-run banks. With growth weak and competition rising, a selective approach is critical. Meanwhile, in the resources sector, portfolio manager Mike Townshend explores the drivers behind the platinum and gold share rally — a bright spot on the JSE this year.

On a more personal note, we say farewell to Agnes Cai, who departs after more than a decade leading Foord Singapore. Her steady hand and deep institutional knowledge leave an indelible mark. Finally, the *Markets in a Nutshell* section offers a concise summary of the quarter's key market moves.

As always, we thank you for reading — and for investing the time to think beyond the headlines.

Regards

Paul Cluer
Managing Director

CHINA'S MISUNDERSTOOD ADVANTAGE — INNOVATION THAT THE MARKET STILL DISCOUNTS

Global investors remain fixated on China's macroeconomic slow-down and geopolitical risk, yet they continue to miss the country's accelerating innovation curve. In a world starved of growth, we believe that this mispricing presents a once-in-a-lifetime investment opportunity. Portfolio manager JC XUE highlights why China's tech-led momentum remains one of the least-appreciated sources of future equity returns.

A QUIET AI REVOLUTION

Headline writers still call China a copy-and-paste economy — yet the facts differ in many areas of modern innovation. For example, China now ranks among the world's top developers of large language models. DeepSeek — released this year — rivals ChatGPT and other US LLM models, though trained at a fraction of the cost. Video-generation model Kling and agent platform Manus add breadth to the Chinese AI ecosystem. Chinese firms are launching hundreds of new AI algorithms each month and are on track to expand the AI ecosystem by a further 50 % by 2026. Tencent and Alibaba already sit inside the global top 10 for AI models, yet still trade at the low valuations accorded to mature utilities companies rather than high-growth innovators.

CHIPS, BATTERIES AND ROBOTAXIS

US export controls were meant to choke Chinese semiconductor progress: instead, they have accelerated it. SMIC is the leading Chinese chip manufacturer. Once a decade behind TSMC, SMIC has narrowed the lag to roughly five years. It is shipping advanced chips produced on older equipment to smartphone and AI clients.

In mobility, Baidu's driverless taxis already operate without safety drivers in five Chinese cities and will debut 100 vehicles in Dubai by year end. The battery story is similar: CATL's latest battery achieves 500 km of driving range from a five-minute charge — five times Tesla's speed — while sodium-ion chemistries promise cheaper, safer storage. Two-thirds of all humanoid-robot launches since 2022 have also come from China.

CULTURAL EDGES THE MARKET FORGETS

Rapid execution is embedded in the Chinese national psyche. China built the world's largest high-speed-rail network in a decade. A comparable urgency drives electric charging, battery supply chains and data-centre construction. Resilience is equally visible. Market leader Huawei built its own phone chips, operating system and even an electric vehicle platform within four years of US sanctions. A deep talent bench sustains the pace: China now graduates more than four times as many scientists and engineers as the US — and almost twice as many PhDs.

VALUATION GAP TOO WIDE TO IGNORE

While there are undeniable governance and political risks to investing in China, investors are overlooking a deep valuation gap. Giant US wholesaler Costco trades on more than seven times the price-earnings multiple (PE) of China's JD.com, despite the latter's faster growth. Baidu — already monetising robotaxis — trades a single-digit PE, while Tesla's outsized valuation assumes multi-billion-dollar robotaxi revenues still years away from being earned. At what point does the valuation gap no longer make sense?

HISTORY OFFERS A LESSON

History suggests that global superpower dominance follows national technological advancement. China led globally until the 1500s; the Netherlands followed with shipbuilding prowess, then the UK with the industrial revolution, and, more recently, the US with computing and nuclear tech. In a threat to US exceptionalism, the innovation wars now favour China.

Foord positioning: We remain overweight carefully selected Chinese innovators: platform companies integrating AI across their ecosystems. We are also actively evaluating opportunities around supply-chain champions in batteries and semiconductors. Misunderstanding is a prerequisite for opportunity — and China still offers plenty of both.

South Africa has never been short of potential. From our mineral wealth to our human capital, the promise of a prosperous, high-growth future seems almost tangible. Yet, despite the data repeatedly showing how small, targeted reforms could unlock dramatic improvements in growth and living standards, the country remains mired in stagnation. In a recent Foord webinar, the panellists noted that the reason is not the scarcity of ideas, nor the lack of resources — it is the entrenched political calculus that consistently chooses inertia over action.

LOW-HANGING FRUIT LIES EVERYWHERE

Portfolio manager Nancy Hossack recently hosted political economist Frans Cronje on a Foord Asset Management webinar titled South Africa at a Crossroads — Power, Policy and Potential. They discussed the low-hanging fruit — policy choices — available to South Africa's leaders to quickly kickstart growth and improvement in living standards. Frans listed some easy policy wins.

Consider the energy sector. South Africa possesses sufficient coal-fired capacity to remove the cap on growth overnight. By refitting decommissioned plants and stabilising the grid, we could secure reliable power for businesses and homes without waiting years for new infrastructure. Yet debate after debate, we debate the merits of renewables and nuclear, while Eskom's availability factor flirts with crisis levels — and investors look elsewhere.

Similarly, South Africa's most recent land-reform legislation contradicts the Constitution's provision for expropriation only with compensation — the Expropriation Act allows seizure below market value. African National Congress voters are largely against expropriation, because they simply don't trust the powers that be. By rolling back these changes, we could remove a red flag that scares off fixed capital in a country where investment rates languish at half the emerging-market average.

And then there is our empowerment framework, which taxes capital on arrival in pursuit of redistributive goals. By reframing the B-BBEE scorecards — rewarding job creation, fixed investment and export performance rather than ownership transfers — we could incentivise exactly the private-sector partnerships that will drive sustained job growth and equip millions to join the middle class.

Each of these interventions costs next to nothing, requires no herculean state-capacity building and could be implemented within the next parliamentary term. In private conversations, even senior government figures concede these reforms are logical and broadly popular. Yet week after week, policy discussions circle back to ideological posturing rather than pragmatic solutions.

WHY REFORM FALTERS

The obstacle is structural, as Frans notes. The ANC's Executive Committee — eighty members deep — is so factionalised that decisive action becomes impossible without a strong, reform-minded leader willing to override consensus. Instead, policy becomes hostage to the lowest common denominator, and every bold proposal is diluted into bureaucratic limbo. Meanwhile, the Democratic Alliance, while capable of sound technical policies, lacks the parliamentary heft to force change without coalition partners.

This paralysis feeds public cynicism. Business and consumer confidence metrics remain stuck near half their historical peaks, and growth hovers around 1% per annum — far too low to tackle South Africa's unemployment crisis and burgeoning public debt. Yet, if confidence recovers even moderately, GDP growth could lift to 3–4% within a few years — putting South Africa back firmly on the global emerging-market pace.

A SCEPTIC'S OUTLOOK

South Africa's frustration because of policy booms that never materialise is understandable. The data offered by political economist Frans Cronje is compelling: South Africa is, in effect, the world's largest patch of low-hanging fruit. However, evidence alone does not translate into change. The lack of political will — a reluctance to risk short-term factions for long-term gains — means this fruit continues to spoil on the tree.

Yes, there are reasons for cautious optimism. The GNU arrangement has shown that coalition partners can work together without resorting to street violence. Public polling suggests voters embrace pragmatic, centrist values across class and race — and they want the GNU to succeed. And South Africa's geostrategic position at the tip of Africa offers an unprecedented opportunity to forge a transatlantic investment pact with the United States — an initiative that could inject billions into infrastructure, energy and skills development. Yet these opportunities will remain theoretical until our leaders overcome structural inertia.

PICKING THE FRUIT

South Africa's future does not require moonshots. It needs straightforward laws, clear incentives and the courage to pursue reform, even if it upsets entrenched interests. Burn the coal fleet's dead weight. Safeguard property rights. Reward real investment rather than box-ticking ownership. Nothing here demands a radical overhaul of our democracy — only the political will to match the people's aspirations.

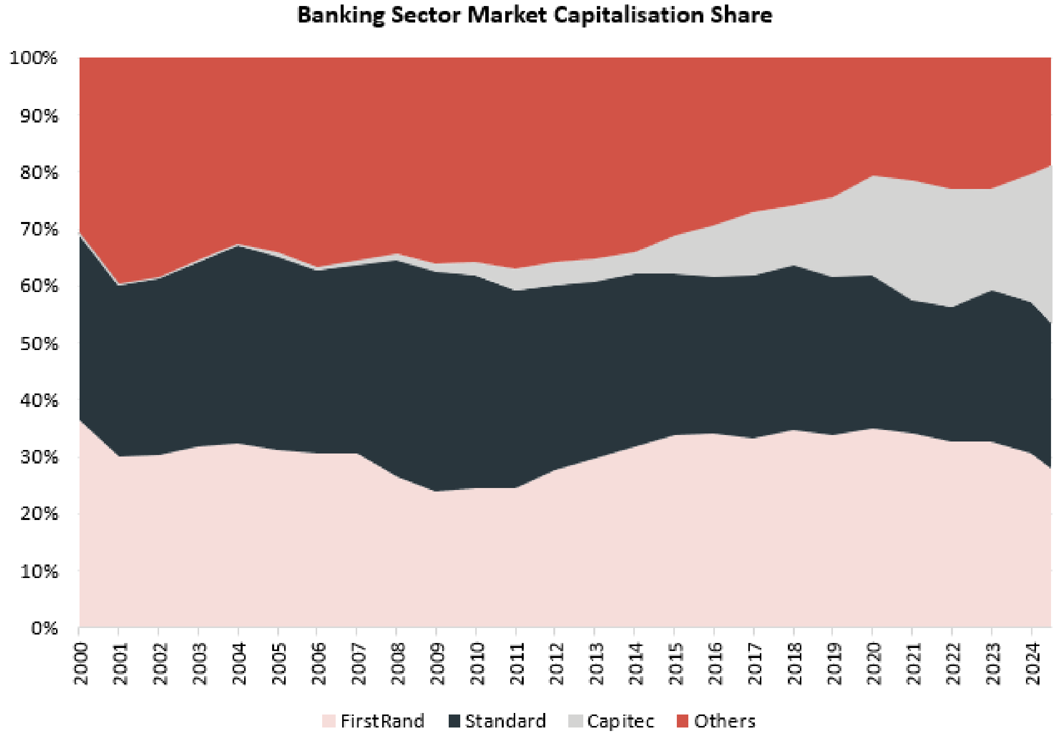
Too often, we mistake stagnation for stability. True stability comes when citizens see tangible improvements in their lives: reliable electricity, secure property, and a job that pays more than subsistence wages. South Africa sits on a garden of opportunity — we only need to reach out, pluck the fruit and finally turn potential into prosperity.

South African banks have been rewarding investors since the post-COVID lows — however, the operating environment continues to be tough. Economic growth remains anaemic, interest rates are likely to drift lower, and competition is heating up in payments and SME banking. In this context, analyst BYRON JACKSON-MILLER explains why selective positioning makes more sense than blanket exposure.

THE SA BANKING LANDSCAPE

Banking in South Africa is a heavily competitive industry, despite high levels of regulation and concentration. Banks must use leverage to generate returns above the cost of their regulatory capital. Banking profit margins tend to compress whenever economic growth falters and bad debts start to expand.

Banking is also a commoditised industry where cost initiatives have been an important part of earnings growth. An example is Standard Bank's 42% reduction in branch footprint since 2017. Opportunities to cut costs are now largely exhausted. We also expect Capitec to continue to disrupt large pools of fee income on which the big banks have historically relied. The chart below illustrates how the higher quality banks have taken JSE market cap share over the last 25 years.



Source: Factset

In this context, it is important to be conscious of the specifics of each business. Foord has been selective in choosing to own the banks with unique opportunities and advantages. This also reflects caution about South Africa's economic growth prospects, the paucity of significant capital lending projects, and banks earning less when interest rates decline, as they are now doing (known as the endowment effect — see '*Did You Know?*').

PREFERRED BANK INVESTMENTS

Despite our relative caution towards the sector, select banking stocks feature in our top-10 holdings. **Standard Bank** tops our preference list. Standard Bank owns a pan-African franchise that is difficult to replicate and which drives earnings diversity. Its corporate and investment banking divisions also position it for any infrastructure-led upswing. We expect steady cash-flow growth from this blue-chip company still trading on an attractive valuation.

We have also **added opportunistically to Capitec**. Management execution has proven unusually reliable, and we expect more to come: of its 24 million clients, only nine million are fully banked — leaving room for growth amongst its customer base. Capitec's knack for embedded services — airtime, vouchers, funeral cover — layers revenue at minimal incremental cost. Early moves into SME banking via low-cost point-of-sale devices mirrors Capitec's disruptive retail strategy of twenty years ago.

FirstRand is a multi-decade core holding in our funds. FirstRand remains best-of-breed in most banking segments in South Africa. It is well positioned to continue to win business from weaker competitors in a tough operating environment. We are closely monitoring the mis-selling litigation relating to FirstRand's UK subsidiary, MotoNovo, but probability-weighted outcomes still justify continued exposure to the share.

Four near-term priorities for the SA banking industry

There are four major themes playing out in the SA banking industry that will affect market share and investment outcomes:

1. **Digital payments:** SARB's *PayShap* project — instant real-time transfers between bank accounts or mobile wallets — aims to slash cash usage that still accounts for over half of all point-of-sale transactions in South Africa. More than 80% of South Africans have a bank account, but in half of these cash is withdrawn as soon as its deposited. Fee income is at risk for incumbents, but there are opportunities: to capture this payments trend, Capitec is rolling out its white-and-blue contactless payment terminals to small-and-medium enterprises 50% cheaper than peers.

2. **SME banking:** Capitec is aggressively expanding into the underserved bottom end of the business banking market, while Investec is bringing its private banking service levels to slightly larger businesses. Scale without legacy IT offers a cost edge that incumbents must counter.

3. **Leadership changes:** Jason Quinn's move from Absa to Nedbank and Kenny Fihla's arrival at Absa from Standard Bank highlight the cultural overhaul underway within the sector.

4. **Non-lending ecosystems:** Banks increasingly monetise app traffic through value-added-services and embedded products. Nothing knows you better — or gets more of your attention — than your banking app. FirstRand and Capitec already use client transaction data to undercut external insurance policy premiums and airtime. Foreign-exchange remittances are next.

INVESTMENT IMPLICATIONS

Credit growth and impairment trends will drive short-term share price direction. However, medium-term winners in the sector will be those banks with technological agility, fee resilience and disciplined capital allocation. An internal culture that can adapt to change will be important.

We have reduced our banking weight in the Foord Equity Fund, but remain long-term investors in its best franchises. In a low-growth economy, owning the price-setters — not the price-takers — remains the surest way to compound shareholder value. We favour banks that are shaping industry shifts rather than reacting to them. Standard Bank's continental network, Capitec's platform model and FirstRand's data-driven culture meet that threshold.

PLATINUM SHARES SHINE ON PGM RALLY

The precious metals sector has been the standout performer on the JSE Limited this year. Both constituents of the Precious Metals Index — gold and platinum mining shares — have done equally well. Portfolio manager MIKE TOWNSHEND takes a closer look at what's driving the rally.

A GOLDEN START FOR PRECIOUS METALS

The precious metals sector has advanced 78% in the first six months of 2025, far outpacing the 16% of the FTSE/JSE Capped All Share Index. Individual constituents, such as shares in Anglogold, have almost doubled year to date. Without this sector, the performance of the All Share Index would have fallen to below 10%.

GOLD AND PLATINUM METALS PRICES ON A TEAR

Gold bullion continued its multi-year climb, briefly breaching $3,500 per ounce this year. Central bank buying is one of the main reasons for the price rise. The profitability of gold miners has surged, providing a solid underpin to the stellar performance of these shares. Foord has maintained meaningful exposure to the gold mining sector — mainly via Anglogold and, to a lesser extent, Gold Fields — as well as owning physical gold in our portfolios in South Africa and abroad. Investors have been richly rewarded.

Platinum shares — where we have some exposure — have also rallied strongly, but the reasons are less clear-cut. Broadly, the revenue make-up of the platinum miners is 40% platinum, 25% each from palladium and rhodium, and 10% from a variety of other minerals. After a decade of trading around $1,000 per ounce, the platinum price has surged by 40% since the beginning of May. The other platinum group metals (PGMs) prices have also risen, but less dramatically and from lower bases.

What's behind platinum's breakout?

It must be noted that PGMs are all small, illiquid markets where sudden changes in demand and supply can have an outsized impact on prices. Several factors appear to be behind the platinum rally:

- **Supply constraints**: South Africa supplies over 70% of the world's platinum. Stats SA data show a 16% drop in production in the first four months of 2025, although this is expected to recover over the rest of the year.

- **Jewellery substitution**: The surging gold price has depressed gold jewellery sales, especially in China. Wholesalers are experimenting with platinum as a substitute precious metal for price-sensitive jewellery buyers. Platinum is less malleable than gold, so it will take time before new designs reach the retail market to assess the success of this strategy.

- **ETF demand**: The rising platinum price has triggered speculative inflows into platinum ETFs. As always, momentum-driven buying can reverse quickly if sentiment shifts.

LONGER TERM HEADWINDS FROM ELECTRIC VEHICLES

Over the medium to longer term, we believe the platinum group metals face serious structural headwinds. The primary source of demand remains catalytic converters in internal combustion engine (ICE) vehicles — they are essential for the reduction of toxic emissions from petrol and diesel vehicles.

China — the world's largest vehicle market — now sells more cars than Europe and America combined. China has adopted battery electric vehicles (BEVs) faster than any other region in the world. Electric vehicles already account for 40% of total vehicle sales. Remember, electric vehicles do not burn fuel and therefore do not need catalytic converters.

We believe this rate of BEV penetration will spread to other regions. Even if total vehicle sales increase, the proportion of ICE vehicles — and thus demand for PGMs — should fall. Trucks are harder to electrify, but even here Chinese electric truck sales already exceed 10% of the total market.

PGM RALLY HARD TO SUSTAIN

While tighter emissions standards may support short-term demand through increased PGM loadings, this will not offset the structural decline tied to EV adoption. We believe the recent rally in platinum prices is likely to prove temporary. The near doubling in PGM share prices this year is unlikely to be supported by sustainably higher earnings. With valuations now stretched, downside risks are growing.

FAREWELL TO A STALWART — AGNES CAI

After more than a decade at the helm of Foord Singapore's operations, Chief Executive Agnes Cai departs this month to pursue a new chapter outside of asset management. Her decision leaves us both proud of her immense contribution and wistful at losing a colleague whose calm resolve and encyclopaedic institutional memory have become part of Foord's DNA. PAUL CLUER bids her adieu.

Agnes joined Foord in late 2014 as compliance officer, answering a regulatory prerequisite attached to our newly granted retail licence on the island. Recruited by Prakash Desai, she brought with her a chartered accounting pedigree honed at Deloitte in Singapore. From the start, her strikingly asymmetric hairstyle hinted at a fearless personality beneath the meticulous exterior.

Within months she was tackling far more than compliance: she streamlined fund accounting, overhauled client reporting and knit together our Singapore, Guernsey and Luxembourg operations into a single, well-oiled machine.

Her remit kept expanding. When Prakash retired in 2018, Agnes stepped confidently into the CEO role. She assumed responsibility for every operational, governance and regulatory function of the Foord global funds. In practice, that meant long hours, countless regulatory filings, board packs across three jurisdictions, and the occasional 2am emergency call — invariably handled with the same composure and precision for which she is known.

As a manager, Agnes has been a stickler for precision and rules. But I also know her to be greatly caring for the wellbeing of staff and the greater Foord family of investors, and always ready to help everyone. It is in this latter capacity that we'll miss her most of all.

Her impact is hard to overstate. She carries with her a trove of organisational memory and knowledge that we must now spread around. Agnes's departure will truly put to the test the theory that no one is irreplaceable and put a spotlight on succession.

In this regard, we have agreed with the Monetary Authority of Singapore that I will be appointed as interim CEO, given my long tenure on the Foord Singapore board since its founding in 2012. We have also recently bolstered the operations team with the appointment of Wei Lu Tan — recruited from star Singapore state fund manager GIC in January — as Chief Operating Officer, and added additional capacity with junior operations staff. They are already making a major contribution.

As she embarks on her next adventure, we thank Agnes for her professionalism, integrity and humanity. She departs Foord with our deepest gratitude and best wishes, always. Her imprint on the organisation is indelible, and her example will continue to guide us for years to come.

DID YOU KNOW? ENDOWMENT EFFECT

In banking jargon, the endowment effect is the profit tailwind that banks enjoy when central banks raise interest rates. At first blush, the concept is counterintuitive. We all understand that high interest rates eventually lead to rising defaults on home loans and credit cards, which is negative for bank profits.

But picture a bakery that suddenly raises the price of its loaves: every extra rand goes straight into profit if its flour cost stays the same. Banks enjoy a similar windfall when interest rates climb. Lending rates (on mortgages, vehicle finance and overdrafts) move up almost overnight, but the rate the bank pays on current account deposits hardly budges. That widening gap is called the endowment effect: an ‘unearned’ boost to profit margins that feels like finding money down the back of the sofa.

The effect works both ways. As soon as policymakers cut interest rates, competition forces lending rates to drop immediately. However, banks are often slower to cut deposit rates for fear of sparking a run on deposits — if they paid anything to start with. The margin cushion deflates, profit growth slows and share prices often follow. For investors, the key takeaway is timing: bank earnings often peak after the peak in rates.

	WORLD	SOUTH AFRICA
Equities	Global equities rallied to double-digit gains, with US bourses recouping Q1 losses on robust earnings and moderating inflation — shrugging off the 12-day Israel-Iran war and Liberation Day lows after the US offered a 90-day abeyance on reciprocal tariffs	Emerging markets rallied on buoyant commodity prices, with the FTSE/JSE All Share also powering ahead — resource stocks advanced further, but the gains were broad-based, with industrial and financial counters outperforming
Bonds	Global government bonds advanced as bond yields continued to moderate on expectations of lower real interest rates despite fiscal headwinds — while credit spreads narrowed modestly	South African bonds rallied, boosted by resilient demand amid stable inflation and a dovish SARB outlook — the yield curve steepened slightly as long-dated yields fell less than short-term rates
Currencies	Major currencies strengthened versus the US dollar, with the euro gaining over 8% against the greenback — and the dollar becoming the whipping boy to expansionary US fiscal policy and slumping to its worst start to a year since 1973	The rand was volatile on acute political stress as the GNU looked increasingly precarious and the US administration became increasingly hostile towards SA — but gained 3% over the quarter on broad-based US dollar weakness
Commodities	Precious metals prices were mostly higher amid US dollar weakness, and safe-haven (gold) and jewellery (platinum) demand — but Brent crude oil fell nearly 10% on demand fears despite an intra-quarter spike after Israel attacked Iran	
Economy	Global developed market GDP growth remained modest even as inflation continued to ebb at low levels — with on-again off-again reciprocal tariffs playing havoc with trade and investment	The South African economy continues its structural low-growth trend — business confidence ticked higher, but low fixed-investment and constraints in power, ports and rail kept growth sluggish
Monetary and fiscal policy	The US Federal Reserve has become a global outlier, holding rates steady this year even as other major banks, including the ECB and BoE, have cut interest rates — the Fed is wary of risks to prices, including from dollar weakness and tariffs	A hawkish SARB cut the repo rate for only the second time this year, with real rates high as inflation lingers below the 3–6% target range — while Finance Minister Godongwana needed three tries to pass a controversial budget framework

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